Cohort PLC

Preliminary results 2024

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Transcript

COHORT PLC

THE INDEPENDENT TECHNOLOGY GROUP

Andy Thomis: Okay. Well, good morning, everybody. Nice to see a full house, that's great. In case anyone doesn't know, I'm Andy Thomis. I'm the Chief Executive at Cohort plc, and I'm here with Simon Walther, who's the Cohort's Finance Director to take you through the results of our financial year ending April 2024. You might be interested to know that the picture you can see there is the assembly of SEA's Krait Towed Array Sonar going on at the factory in Barnstable. So I'm going to start by giving you the highlights of the results that we're announcing today. Simon is going to give you more detail, including a divisional breakdown. Then I'll come back with some comments about the demand picture and about our future prospects. And I'm happy to say that overall, we've once again seen a very strong performance, record operating profit, record revenue, and a record closing order book.

So here are the numbers. As I say, revenue and profit, both up very strongly above market expectations. And we hit two, what I'll describe as major milestones in our development as a business. For the first time, we exceeded revenue of £200 million and we exceeded profit of £20 million. More specifically, as you can see, revenue grew by 11% to 202.5 million. Adjusted operating profit and adjusted EPS also grew strongly to just over 21 million and 42.9 pence respectively. And those are all record new numbers. And as I mentioned, it was a strong period for new orders. So the order intake of 392 million significantly exceeded the revenue that we recognised. And so, the order book grew nearly to £520 million at the year-end. And at that point, that meant that 90% of the consensus forecast revenue for the current year was already on order at the end of April.

And our strong order winning run has continued since then. And we've just had another announcement today, in fact, which means that we've taken in something well north of £90 million worth of orders since the year-end. And the order book has grown. Commensurately well over 560, well, it should be an extra 20 by now, Simon, so I'm guessing 580 by now. And that gives us more than 95% cover for the year as a whole. Finally, worth mentioning, the cash performance was also strong. The end of year cash position was much better than we'd expected with net funds of over £23 million. So against that background, the board was very pleased to be able to recommend a final dividend of 10.1 pence. And that means that for the full year, we've grown the dividend by 10% once more.

Now Simon's going to give you a more detailed breakdown of the performance of the divisions, but this slide shows the main factors behind the improvement in the group's performance. And overall, it was the Sensors and Effectors division that was the driver of revenue and profit growth. Communications and Intelligence actually performed slightly behind where they were last year. So in Sensors and Effectors, Chess and SEA generated the large improvement in operating profit. And one factor in that was a generally positive demand environment. And that was coupled to the fact that we had good products that we've developed to meet what the market needed. And the most notable example of that in the year was the selection by the Royal Navy of SEA's Ancilia product to protect its surface ships.

There was an especially strong turnaround in performance at Chess. They exceeded our expectations for revenue and profit in the year, and that was a demonstration of the success of the operating improvements that have been made by the Managing Director there, supported by Simon and myself. And we continue to target further improvements there. ELAC continued to trade its large Italian submarine contract with a degree of caution, but again, it performed well as a business. The Italian submarine, sonar suite passed its critical design review and has now moved on into the production phase. Looking at Communications and Intelligence, the main swing factor there was MCL returning to a more normal level of performance after the exceptional year of 2022/23. MASS though returned to growth and hit new records of revenue and profit, despite being hampered by supplier delays on one of its major contracts.

EID had, again, a disappointing year, making a small loss for the year as a whole. But the good news for EID is that towards the end of the year, and at the beginning of this year, it succeeded in bringing in several really important orders with a total value north of €45 million. And that bodes well for them for a better year in 2024/25. And finally, I should mention a small acquisition made by MCL. It's a company based in Knaresborough, Interactive Technical Solutions, ITS. It specialises in providing the support documents that defence customers need when they buy new equipment, and that's a capability which is often contracted out by equipment suppliers. And MCL has been itself a frequent user of ITS's services, and we believe that that acquisition will enable ITS to expand its offering and MCL to offer a fuller service to its customers. The acquisition was completed in May and it'll make a positive, modest, but positive contribution to our trading this financial year.

Now as well as delivering successfully in 2023/24, we have also improved our strategic position for the long term. The demand drivers have remained strong. I'll say more about this, but the world is not showing any signs of return to stability. If history ever did stop, it's clearly restarted again, and that backdrop has led us to invest in new technologies to enhance our growth prospects and our R&D spend as a result was up very sharply this year. The larger and longer order book speaks for itself. Our book-to-bill ratio was over 1.9 last year, and that momentum, as I've mentioned, has continued into 2024/25, and the result of that is that we can maintain our growth prospects for the current year with some upside as well from the ITS acquisition, which as I say, we expect to be modest in size, but positive and accretive too. And thereafter, the positive strategic picture enables us to target further progress. Now, I'll say more about all of these points later in the presentation, but for now, I'll hand over to Simon who's going to take you through the results in more detail.

Simon Walther: Thank you, Andy, and good morning to you all. And it's a fine morning. Firstly, turning to the overall income statement, as Andy's already said, and I reiterate, we've had a record full-year trading performance for the group. The higher revenue was driven by Sensors and Effectors. And as expected, gross margin has recovered from last year, again, mostly due to the Sensors and Effectors division. As a result of the increase in our order book, we've continued to invest in our people, a trend we showed at the half year, and we now have a rise in headcount from last April where we were just at 1100 people to now just over 1,300, a 15% increase in headcount this year. In fact, over the last three years, we've increased the headcount in the business by 30%.

Most of the increase in people has been in direct staff, specifically engineers, the cost of recruitment, training, general people investment has driven much of the overhead increase with balances in things like the business development, especially the DSEI Show last September, and a general investment in Chess and SEA where we've seen the largest order book increases. I'd like to, at this point, for the analysts in the room to guide that the tax rates we'll be looking to apply to our adjusted earnings for the coming year. We'll be just below 20%, and for the two years after that, just above 20%. The overall operating margin for the year at 10.4% was in line with last year. But looking forward, we are targeting a steady rise over the next three to five years to a low to mid-teen percentage for the group. Firstly, the Sensors and Effectors division, this saw a 24% increase driving a 38% improvement in trading profit.

The revenue increase was mostly at SEA as it started to deliver on what was a strong order book at the start of the year, and obviously has improved greatly this year. The improved operating margin, as Andy said, was down to Chess, which as we stated last year, has closed out its problem legacy projects, and delivered an operating margin now of over 10%, which last year was only 2%. At ELAC, we completed the critical design stage on the Italian Sonar contract and have now entered production of the first ship set. We continue to trade margin prudently on this project, and we expect to deliver that first ship set in 25/26. ELAC's figures also last year benefited from the last payment from Wärtsilä, which was part of the deal. That obviously has not been repeated this year. And if you exclude that item, the underlying operating performance of ELAC was up 25% on a similar increase in revenue. SEA as expected, delivered more revenue, but its mix was weaker with a greater subcontractor effort, especially for delivery to an overseas customer.

The order cover for this division for the coming year is over 95% with good prospects for further orders on some of our key products, including counter drone systems at Chess. We expect this division to continue to grow in the coming year with net margins set to approach 12% as against just under 11% for this year. Moving to Communications and Intelligence, this division had a weaker year. What was after last year, an exceptionally strong performance. The revenue drop was at MCL, which delivered exceptionally high levels of hearing protection incomes to the MOD last year, and has now returned to what we see as more historically normal levels. EID's loss for the full year was lower than last year due to continued delays to significant orders from Portugal. And as you saw, we announced on Monday, some of these have now been finally secured. We do expect EID to have a better 24/25, but it still has some way to go to achieve the historical levels of performance, including operating margins, that it's achieved of over 20%. And more importantly, to achieve that on a sustainable basis. MASS delivered a stronger result than last year. The weakened net margin for this division was mostly due to the volume drop at MCL. Order cover for this division is also now around 95% following these recent order wins. Historically, this division order cover is lower than Sensors and Effectors due to the short-term nature of some of the work at MASS and especially MCL. So I'm pleased to say that 95% is a very strong position at this time of the year. Again, we expect this division to deliver a stronger performance in '24/25 and a margin of around 16%, which we think it should sustain in the longer term. Now, I'm going to move to some pictures.

Now, Ben was with me when I think we visited to see this hole that you see there on the right. That is the hole that into which the test tank for ELACs new facility was going to go. And you got a pretty good example there of the inclement weather of last winter in northern Germany, which held up our expenditure on the factory, and progress. However, it's now back on track, and this is the site as of Monday morning. And you can see that on the right there, the hole has been filled in, and you'll see the top of the tank, which is approximately I think around nine meters deep and nine meters wide, and in length. So I think Andy mentioned it's going to be used by the German diving team.

The facilities themselves, you can see the foundations now being laid. I mean overall, we remain on track to complete this facility in the summer of '25. And to start the move from the current site to this site over the autumn and into the winter. We now estimate the total cost of this new facility will be around about £19 million. And that spending will complete in '25/26.

Finally, moving to the net funds for the group. I mean, what was a very good H1 performance was very much repeated in the second half, and we ended up much stronger than I expected. That's partly due to the delay to the CapEx spend in Germany because of the inclement weather. And that will be caught up with over this year. And you'll see at the bottom, my guidance on CapEx spend for the next three years. 17 million, 7 million, 5 million. Of the 17 million, around 12 million is on the German site. And there's a little bit runs into '25/26. We then revert to what I would call is a long-term run rate for the group of 5 million.

In terms of other operating cash, Sensors and Effectors, particularly SEA, had a very strong performance this year with customer advances funding some of their work. We do expect that to unwind a bit this year. And so overall, I am guiding towards closing funds of around 15 million for the end of this year. But summing up, it's been an encouraging start to '24/25 and growth expectations are maintained and I think we've got strong momentum. At which point I'll hand back to Andy.

Andy Thomis: Thank you, Simon. So that covers the year just past. Now I'm going to talk about the outlook. And I'll start with the broad market position, then I'll talk about some of the investments that we're making in new products and technology to maximise our opportunities. And I'll show you then how our existing order book runs off over the coming years and how it's developed over the past 12 months.

So let's start with the demand picture. The two main driving forces for demand for defence equipment haven't changed over the year. The continuing conflict in Ukraine is one, and the influence of growing Chinese assertiveness from the Indian Ocean right across to Australasia is the other. And to add to those, since October last year, there has been the developing violent conflict in Gaza and the related instability in the region, particularly in the Red Sea.

The conflict in Central Europe is primarily land-based. It's driven demand directly as the NATO countries seek to assist Ukraine to resist the Russian invasion. 2023 saw a real increase of over 8% in the European NATO allies and Canada defence spending. And it's also made those countries in NATO and elsewhere think again about the balance of their defence forces and equipment. Now, some aspects of that rethink, like for example, ammunition stockpiles, don't have much of an impact on us. But other lessons learned, the importance of electronic warfare, the need to counter drones of all kinds, the need for accurate and timely battlefield intelligence. All of those have had a positive effect on both our orders and our prospects.

In Asia, growing Chinese assertiveness has not yet transformed into open conflict, but it has come perilously close at times in the South China Sea. Taiwan also is clearly at risk, and the presence in the region of North Korea doesn't exactly have a stabilising effect either. Chinese investment in its Navy has led to a growth in new maritime programs right across the region and beyond. The most visible and significant consequence of that was the creation of the AUKUS Alliance between Australia, the UK, and the US. And we are very optimistic of being able to support the new submarines that are being bought under the AUKUS Alliance.

Taiwan and the Philippines have also launched new submarine programmes, and South Korea is investing heavily in defence, notably also, in its submarine building programme. Japan remains committed to a doubling of its national security spending as a proportion of GDP by 2027, and it's really working at that, its defence spending increased by 27% in 2023, and by a further 16% in the year 2024. And it's also joined the Anglo-Italian Next-Generation Combat Aircraft Project balancing its historically strong ties with the United States with growing ties to Europe, and particularly to the United Kingdom.

The conflict in Gaza doesn't have the same direct impact as the other factors, but it is symptomatic of wider tensions in the region. Ultimately, between Iran on the one hand and Saudi Arabia and its allies on the other. The attacks on ships in the Red Sea have accentuated the need for drone and missile defence. And more widely, the conflict is likely to drive further defence spending in what remains one of our more important regional markets.

It's hard to say how all of these conflicts and tensions are going to play out in the long term, but it is clear that we are not in a situation that can be resolved with a few compromises and a handshake. The world is now in a period of instability and tension that is likely to persist for the foreseeable future comparable to the Cold War, but perhaps even more complex and unpredictable. And obviously, this isn't something that fills us, nor should it, with happiness. We should all be concerned for the welfare of our families and of future generations. What motivates us at Cohort is that we can make a positive contribution in this situation because the equipment and services that we supply contribute to the security of our nations and to our allies in what has become a more dangerous world.

So what is the impact of all of this in practical terms for our opportunities? Looking at our domestic markets, the most important of those by a long way is the United Kingdom. Something like 54% of our total revenue in '23/24 went to the UK directly and indirectly. And in particular, we've got a close relationship with the Royal Navy, with Chess and SEA, both significant suppliers of equipment and support. And the Ancilia win has deepened that relationship further. But we also provide electronic warfare software and training for the British Army and for the Royal Air Force, a wide range of communications and electronic warfare equipment from MCL, and exercise support for the UK's Strategic Command as well.

I don't see the recent change of government as being likely to change the fundamentals of UK defence strategy. The new defence secretary, John Healey, is a highly able man, he's an experienced minister, and he's appointed George Robertson, the former defence secretary and the former Secretary General of NATO to lead the defence review that he's recently announced. All of the indications are that the Starmer government is essentially a responsible government, and I don't think any responsible government would take risks with defence at a time like the present.

Our domestic markets in Germany and Portugal are important, although smaller. In Portugal, we've finally seen some good news with order intake for the Army, and we're in discussions also about an important naval program. Looking to our export markets, we're seeing strong demand from the European NATO countries for air defence systems, particularly for countering the drone threat. And that demand comes both directly to us and via partners like Rheinmetall and Bofors. Now, that capability has brought us into some markets in central and Eastern Europe that we haven't accessed before. We're also providing battlefield reconnaissance systems and electronic warfare software and training into those markets.

To the east, we see strong demand from Asia, from the Indian Ocean all the way to Australasia for naval systems. Torpedo launchers and communication systems are both in demand and we see good opportunities in this region for Ancilia as well as sonar systems. And as I mentioned, submarine programs are being launched worldwide, providing opportunities for us in countries as diverse as Canada, Poland and the Philippines. It's NATO and the Indo-Pacific that are the regions we supply most, though we're also active in South America, Canada, and the Middle East. Overall, the demand picture for Cohort is robust.

And against that encouraging background, we're increasing our spend on technology development to meet the evolving needs of our customers. A 26% increase in spending this year. Many of the products that we develop are sensitive, but I wanted to share some examples with you. Chess, first, has developed artificial intelligence based technology to track small and elusive airborne targets like drones. Now, that can be combined with high-power radio frequency jammers to block the command signals and communication signals for the drone. Or for a more permanent solution, we can use it with something like the Bofors 40-millimeter cannon that you can see in the slide there. Chess has also developed that technology to provide battlefield surveillance systems that can go on vehicles, and those systems can be elevated using a mast above tree level and then used to detect, to track, and to designate targets accurately at long ranges. ELACs's new digital sonars, and you can see a picture of one of their panels in the middle there, allow greater sensitivity than ever before by combining many thousands of acoustic sensors into an array. And that means that they can detect submarines at greater ranges than the competition. Digital beam forming with some features that are unique to ELAC allows the sensors to determine an accurate position of a target.

I've talked before about SEA's towed array sonar, known as Krait, that is suitable for small lightweight surface vessels. And it's apparent from recent exhibitions and conferences and discussions with customers that the world's navies are looking to grow the number of uncrewed vessels that they deploy both over and under the water. And Krait is ideally suited to those applications. And then last but not least, I must mention Ancilia, the picture you can see on the right-hand side there. SEA's system for protecting naval vessels from anti-ship missiles.

Now, events in both the Black Sea and the Red Sea have shown just how potent that threat is. We see a significant international market for Ancilia as a result of that. And that product comes from a successful collaboration between SEA and Chess. And that's a happy outcome, I would say, of two businesses that are world experts in respectively, decoy launchers and stabilised positioners being under the same roof here in Cohort. Investment in those and other projects positions as well to meet customer requirements, which are evolving for the reasons that I explained before. And finally, worth mentioning and no less importantly, we maintain our strategy of seeking and investing in value-adding acquisitions.

We are very selective. We won't acquire a business unless we're very confident that it would add value and growth in the long term. ITS is small, but it matches that profile. Now, I've talked in broad terms about markets and capabilities. This slide shows the tangible results of the demand picture that I've talked about. Now you can see the order book runoff for the year beginning 30th April 2024, on the right-hand side there. Nearly £520 million. The year-end order book is the strongest that we've ever announced, and that includes over £180 million for delivery in the course of this year, and over £100 million already for next year.

Now of course, the Ancilia win at £135 million that we announced in March made a big contribution to that order book, but it is worth mentioning that even without that, we would've seen order intake of over £250 million, and it would still have been the best year for order intake and the best closing order book that we've ever had. And as I mentioned earlier, since the year-end, that order book has continued to grow. It will now be in excess of £580 million, taking into account the order that we announced this morning. And that gives us over 95% revenue cover for the year as a whole.

The larger part of our order book sits within the Sensors and Effectors division. SEA makes a very strong contribution to that number and ELAC and Chess also add significantly to the total. In Communications and Intelligence, and you can see the split between them with the colour coding there. MCL tends to operate naturally on a short-term order book, so its contribution is quite modest. MASS's order book is substantial, but only increases significantly in those years when we renew one of its large long-term service contracts. And EID has been, as I've mentioned, in discussion for some substantial domestic programs for what it seemed like forever, and that was still ongoing at the year-end and is recognised in a relatively modest contribution to the order book there. But the good news is that since May, they've taken in more than €45 million of new orders, and that's significantly replenished their order book.

Just for comparison purposes, the chart on the left shows the shape of the order book runoff as it was this time last year, and what you can see is that it is maintained its shape in broad terms. All of the columns have increased in size. The change that really stands out though, which we've highlighted there, is the longer-term revenue, which has grown from £65 million last year to £157 million this year, almost a 250% increase. And that's the impact of Ancilia and other long-term contracts providing a steady flow of revenue for over a decade ahead. In fact, out to 2037. And this is a slightly more detailed slide, showing you the order book runoff for the current year together with a comparison against the same position last year. The increase in the total order book from £329 million to £519 million, more than 57%, is obviously a strong indicator of the potential for future revenue growth.

And as I said, we're now over 95% covered in terms of revenue for the year. The two shaded columns there show the revenue which is already on order, or was on order at the year-end for the year ahead, compared to the same position in

2023. In Communications and Intelligence, we can see now already that the underpinning is rather stronger than it was last year, and since then we've seen very good order intake from MCL and EID. So that position has improved beyond that quite significantly. But the really big change is in Sensors and Effectors, where the underpinning for the year has risen from £84 million last year to over £120 million this year, more than a 40% increase. And that positions us really well for further growth this year.

So that brings me almost to the end of the presentation and to a summary of the main points that I wanted to make. It's been another record year in terms of performance. We're not resting on our laurels, but we're very pleased to be growing the size and strength of the group. Maybe more importantly, we've achieved a record order book and we see an excellent pipeline of further opportunities ahead. As I mentioned, that order book has further increased considerably at the end of June. We've got a strong balance sheet and an excellent relationship with our banks, and that means that we've got the resources that we need to invest in new technology, greater production capacity, and when opportunities arise, carefully targeted acquisitions.

The markets that we're operating in are growing, and we expect to see those higher levels of spending maintained in the longer term. That book to bill ratio that I mentioned of 1.9 is a reliable quantitative marker for future growth. So we maintain our growth expectations for the year, and we expect to see some improvement beyond that from the ITS acquisition. And beyond that time, we believe that the combination of growing demand and our market position allows us to target further improvements in performance. And I hope what you've heard today explains why it is that we've reached that view. And finally, as a result of our performance and our prospects, the board has again felt confident to increase the full year dividend by 10%. We've grown the dividend every year since we IPO'd back in 2006.

So in closing, I wanted to take the opportunity to say thank you to our management teams and our employees for their hard work and professionalism. Thanks to them, this year has seen us take another step towards our exciting long-term future as a major independent UK defence technology group, offering world-class systems to domestic and export customers alike. Our strategy continues to be to generate growth both organically and through acquisitions, while paying a dividend that reflects our successful financial performance. We believe that this offers the best long-term returns for investors while creating high-value employment and enhancing the security of the UK and its allies. Thank you very much indeed for your attention. If you have any questions, Simon and I will do our best to answer them. Simon, would you like to come up?

Jamie Murray: Morning chaps. Can you just provide some more colour on ITC [sic: ITS] and the growth potential and how you're going to get the growth? I think I understand that it relies on people to drive the revenue, so maybe touch on if you're planning to do any recruitment and what that looks like.

Andy Thomis: We are planning to do some recruitment and to expand the capability of ITS. We are lucky that there is a rich seam of recruitable people coming out of the armed forces, many of them based not far from where ITS is. It's been somewhat neglected in recent years, but we see plenty of opportunity to grow its capabilities further, not least because of the excellent customer relationships that are at MCL. So we see that as being a good combination.

Robin Byde: Thanks guys. Morning. Robin Byde from Zeus Capital. You have a great order book and great revenue coverage. Can you talk a bit about your ability to deliver those orders? So I'm thinking supply chain issues, capacity constraints, perhaps across all six businesses, if that's possible.

Andy Thomis: Right, okay. Well, I'll try not to make this too extended. The answer is that, yeah, delivery is what it's all about this year because we already have the order cover. Broadly, we are very confident in our ability to be able to deliver. We've certainly got the capacity to do what we need to do this year. As Simon mentioned earlier, we've grown our head count, and it's people where we really add value. It's not about large machines and heavy capital investment for the most part. We've grown our head count to over 1300 now. Which puts us in a good position. We still need to do some recruitment and we're still doing that, but we're in a good position to be able to deliver.

Undoubtedly, there are some technical risks and there are some supply chain risks. We are very experienced at dealing with those, and we have appropriate levels of provision to ensure that if things go slightly worse than the best possible situation, then that doesn't create a big problem for us. So yeah, overall I'd say we're confident. But that's what it's all about. That's what we've got to do.

Robin Byde: And just specifically, just to follow up on key components. Are you seeing any pinch points with key components?

Andy Thomis: Not at the moment. That peaked just after the Covid pandemic came to an end really. I think we saw some really serious issues with particularly electronic components, particularly high-performance electronic components. We're not seeing that anymore. We've taken a view to consider buying a little earlier and holding a little bit more stock, just because of the experience of that time, which did have an impact. But at the moment, supply chains are in relatively good shape.

Robin Byde: Thank you.

Andy Thomis: Further questions?

Ben?

Ben Bourne: Good morning, gents. Thank you very much. All very clear. Can you just remind us where we are with the fourth Italian sub and when we might hope ELAC might be working on it?

Andy Thomis: Yes. Now, of course there is no guarantee in these matters. However, we are under contract for three Italian submarines, the sonar suites. And Fincantieri, the prime contractor who's actually building the submarines, has just got its contract for the fourth one.

So it would probably be exaggerating to say as night follows day. But I think we can be pretty confident because we're delivering, and it really is an excellent product, that we will in due course be under contract for number four as well. I would expect that to happen in the course of this financial year.

Ben Bourne: Thank you. Just going back to Chess and some of those export opportunities, who can we think of as the best partner to go to market with? Is it the British Swedes or is it the Germans, in terms of opportunity set?

Andy Thomis: I think both are excellent partners. To some extent, their offerings overlap, so they'll have to fight it out between themselves. But both have slightly different offerings, and we are an integral part of both.

I think the big point to make here is that counter drone systems are strongly in demand for obvious reasons after what's been happening in Ukraine. And there are various ways to deal with the drone, but the most permanent one, as I indicated before, is to use mid-calibre weapons that can remove them from the scenery. That's a much better idea than firing million-pound missiles at thousand-pound drones, for certain. And it's a pretty effective way of doing it.

So for that reason, I think that's the right solution, not necessarily for protecting critical national infrastructure in the middle of urban areas, but it certainly is in a battlefield situation, and that's why demand is strong for that kind of product.

Ben Bourne: Perfect. Thank you. And lastly, can you tell us who's trialing Krait?

Andy Thomis: Who's trailing Krait?

Ben Bourne: Yeah.

Andy Thomis: I don't want to talk about potential customers for Krait. And I don't think we've actually said we do actually have a lead customer for Krait defence system. But yeah, certainly it's getting active use.

And at the Underwater Défense Technology Exhibition earlier this year, we had a good presentation from the Navy talking about their strong pivot towards using more and more uncrewed vessels. And there's a considerable logic in that. If you've got an uncrewed vessel, you can have more of them because they cost a lot less. You can put them into dangerous positions that you wouldn't necessarily want to put a billion pound warship or a submarine full of people.

But they are only any use if they can actually sense things, understand, gather information about what's there, and then do something about it. And it's that sensing that we can really provide a very strong capability on.

Ben Bourne: Thank you.

Colin Moody: Hi there. Colin Moody from RBC. Just two kind of broader questions. Obviously R&D was quite a big jump up this year. Clearly you've guided quite clearly for areas like CapEx. I just wonder if you have any kind of colour on what R&D spend might look like in the kind of short term or medium term?

Andy Thomis: Simon?

Simon Walther: Yeah, I can deal with that. You have to look... Our R&D spend, the figure we present there, is very much the figure that is what we use in our sort of actual tax claims. So around 75% of our R&D is funded by the customer on specific projects. It has been rising. I mean, in part it's due to the order book rising. But we're also spending quite a bit more on our own R&D. I mean, good examples being Ancilia. That was our own. And Krait. These have all been developed by ourselves rather than by customers.

So I would expect us to continue to spend more and more on our R&D as basically the order book and the business grows. They will follow one after the other.

I think I covered the CapEx. Did you have anything more on that?

Colin Moody: Yeah. I think just guidance like the CapEx. Thank you.

And just a second question, if I could. Obviously clearly a fantastic order book, order coverage. And clearly it does feel like we're in a world of growing conflict. I just want to play the kind of opposite angle. If we do end up in a world which suddenly decelerates, I just wonder how much kind of rights your customers have in terms of delaying order deliveries or even cancelling orders? Any kind of colour in that?

Simon Walther: Well, I can tell you that what we show as an order book is all legally contracted. There's no frameworks in it. There's no sort of prospects or something that someone might have said that we're going to have an order for this. It is all legally enforceable. So if a customer wishes to extract themselves from a contract, then there will be processes within the contract probably involving compensation for us.

To be honest, I don't see that. I mean, these are long term. And I think Andy can give a view on the longer-term view of if suddenly world peace did break out.

Andy Thomis: Yeah. Well, I mean, we would be happy in many ways I think if world peace did break out. Although it might not be so great for tomorrow. I mean, I think the way that the situation is at the moment, there is no real prospect. I mean, if the Ukraine situation, if Donald Trump comes in at the beginning of next year and forces a settlement, which is a possibility, what you will have then is a hostile border with strong military forces on each side, each investing strongly in the military. You will have an extremely nervous Europe, which you have at the moment. I was at a conference this year where Ursula von der Leyen and others spoke about the military threat to Europe. No one was under any illusion that Russia felt it could just take Ukraine and then stop. No one thinks that.

So you're essentially back in a sort of inner German border in the Cold War situation, where levels of military spending are about twice what they are today. So, I mean, if you have a magic diplomatic wand that can prevent that from happening, everyone would be grateful if you would waive it. But I mean, it's hard to see. It's hard to see.

Colin Moody: Is there much flexibility there in terms of delaying or exact timings of deliveries? Not so much?

Andy Thomis: No. They're fully contracted. These are not optional things, and there are mechanisms in there to deal with delays to ships and things. And if that happens, then we get relief from obligations and we get compensation and marching army costs and so on.

Colin Moody: Great. Thank you very much.

Andy Thomis: Any other questions? Anything from the webcast?

Moderator: We have no questions from the webcast. So over to you for closing remarks.

Andy Thomis: Okay. Right. Well, thank you all very much indeed for your attention. It's much appreciated. It's nice to see a good turnout. That's really, really pleasing. It's been a good year for us. But as always with these things, you enjoy it for about 30 seconds and you're onto dealing with the next. And so on, we go. But I think the prospects do indeed look promising. Thank you.